

VZCZCXRO1788  
PP RUEHAG RUEHDBU  
DE RUEHKB #0624/01 1140430

ZNY CCCCC ZZH  
P 240430Z APR 06  
FM AMEMBASSY BAKU  
TO RUEHC/SECSTATE WASHDC PRIORITY 0216  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY  
RUEKJCS/SECDEF WASHDC PRIORITY  
RUEKJCS/Joint STAFF WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEAIIA/CIA WASHINGTON DC PRIORITY  
RUEKDIA/DIA WASHDC PRIORITY  
RHMFIS/CDR USEUCOM VAIHINGEN GE PRIORITY  
RHMFIS/CDR USCENTCOM MACDILL AFB FL PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000624

SIPDIS

SIPDIS

USDOE FOR FE - SWIFT AND OS - WILLIAMSON

E.O. 12958: DECL: 04/24/2016

TAGS: AJ PGOV EPET KZ PINR PREL TX

SUBJECT: AMBASSADOR'S FAREWELL CALL ON ENERGY MINISTER

NATIK ALIYEV

Classified By: DCM Jason P. Hyland, reasons 1.4 (b), (d) and (e).

¶11. (C) SUMMARY. In a wide-ranging discussion on the eve of Ambassador's departure from post, Azerbaijan Energy Minister Natik Aliyev argued for a trans-Caspian gas pipeline bringing natural gas from both Kazakhstan and Turkmenistan through Azerbaijan to European markets. Aliyev also expressed mild irritation with the ongoing negotiations to establish an Inter-Governmental Agreement (IGA) for the transport of Kazakhstani oil through BTC, arguing that ministries need to be stopped from endlessly revising the agreement so the project can move forward. Aliyev stressed the need for a peaceful solution to the Nagorno-Karabakh dispute and stated that he felt Azerbaijan still needed to work with foreign energy companies for successful energy exploration and development projects. Lastly, in discussing BTC, Aliyev said that while the Turkish state pipeline company had demanded USD 333 million to cover alleged overruns, BP had countered with an offer of a guaranteed USD 250 million and a clean slate, eliminating any future claims or arbitration. END SUMMARY.

¶12. (C) Ambassador paid a farewell call on Natik Aliyev (no relation to President Ilham Aliyev), Minister of Energy and Industry, on April 14. Aliyev expressed his gratitude for U.S.-Azerbaijan cooperation on energy issues and said that without U.S. support projects like BTC would have been impossible to achieve. Aliyev added that he had just attended the Black Sea energy conference in Bucharest where he had sensed a new European interest in Caspian energy resources. Aliyev said that he felt Caspian energy resources could move in two directions -- either to Europe through Azerbaijan and Turkey as pioneered by the SCP pipeline, or perhaps towards eastern markets such as India.

-----  
GETTING CASPIAN GAS TO EUROPE  
-----

¶13. (C) Aliyev argued that a Trans-Caspian Pipeline (TCP) could play a very important role in meeting Europe's energy needs. A Trans-Caspian pipeline could link Central Asian gas to the proposed Nabucco infrastructure, bringing gas from the Caspian through Turkey, Bulgaria, Romania and Hungary, culminating in Austria where the gas would be distributed to France, Germany and other EU countries. Ambassador asked about the one trillion cubic meters of gas that may lie at

Shah Deniz and the role it could play in meeting Europe's energy needs. Aliyev agreed that this is a significant amount, potentially 20 bcma. However, Aliyev said, Azerbaijan's gas resources alone will not be enough to export meaningful quantities to Europe. The best solution, he argued, would be to bring gas from both Turkmenistan and Kazakhstan across the Caspian to join with Azerbaijan's gas resources for export.

¶ 14. (C) The Ambassador asked if there are other potential export routes besides Nabucco. Aliyev said that other routes are being discussed, such as one culminating in the Balkans and another running across the Black Sea to Ukraine and ultimately Poland. The Turkish-Greek-Italian connection is another active concept, he said. Aliyev voiced mild criticism of Turkey's recent approach to gas, saying that the Turks are trying to buy gas at one price and then resell it at a higher price. Aliyev said that Europe is moving towards a freer market and that Turkey should follow this example, letting gas transit its country and collecting a single fee. There is a lot of movement in the European gas market now, Aliyev noted, driven primarily by fear of Russia. The Ambassador brought up the idea of President Aliyev's making a statement about Azerbaijan's willingness and ability to play a role in bringing gas to Europe during his upcoming visit to Washington. Natik Aliyev agreed the idea should be considered.

-----  
GETTING KAZAKHSTANI OIL INTO BTC  
-----

¶ 15. (C) Ambassador asked about Natik Aliyev's view of the slow pace of the negotiations over the draft Inter-Governmental

BAKU 00000624 002 OF 002

Agreement (IGA) to bring Kazakhstan's oil to Azerbaijan. Aliyev said the IGA is taking a long time because the documents are being circulated again and again among the ministries for revisions -- a process, he said sardonically, which could theoretically go on forever. "If we had done this with the BTC agreements," Aliyev declared, "we never would have achieved anything." In what was perhaps a backhanded swipe at President Aliyev, the minister recalled the days of the BTC negotiations and then-President Heydar Aliyev, who at a certain point made a decision and told the inter-ministerial process that the document was finished. Kazakhstan representatives will arrive in Baku shortly and another round of talks will begin. (NOTE: Kazakhstan representatives arrived the week of April 17 and negotiations are currently in progress.)

-----  
VIEWS ON NAGORNO-KARABAKH  
-----

¶ 16. (C) Ambassador asked about the Nagorno-Karabakh (N-K) conflict, adding that he worries about the future when he hears bellicose rhetoric on the subject. Aliyev agreed, opining that it is a bad idea to constantly talk about war. Aliyev said he feels the GOAJ must take every possible chance for a peaceful resolution of N-K. "War destroys everything," he said, pointing out that Azerbaijan has made much progress over the past few years that would be put at risk by renewed hostilities.

-----  
AZERBAIJAN: OPEN FOR BUSINESS?  
-----

¶ 17. (C) The Ambassador shared the perspective of some international companies that the GOAJ is discouraging new projects by foreign firms in the energy sector. Aliyev denied that this is the case and said that his philosophy is to invite international investors into projects in order to share risk. In his view, the risk is still considerable and

for the next few years Azerbaijan will have to continue partnerships with foreign companies on most ventures.

¶ 18. (C) The Ambassador pointed out that many American companies are looking to grow their presence in Azerbaijan, noting the maritime construction company McDermott as an example. McDermott would like to make Azerbaijan the hub for all its Caspian projects, similar to its operations in the UAE and Indonesia, but needs a duty-free zone if this is to make commercial sense. Aliyev said that in order to establish a duty-free zone, the parliament has to pass a law, based on advice from SOCAR, the Energy Ministry and the Presidential Administration. Ambassador urged Aliyev to look seriously at such proposals, which would benefit Azerbaijan as well as American investors.

-----  
COMPLETING BTC  
-----

¶ 19. (C) Ambassador asked for Aliyev's take on the current state of BTC. Aliyev said that BP is still in negotiations with BOTAS, the Turkish state pipeline company, and that the May 27 deadline to finish all work still stands. A six-day delay between pump stations 3 and 4 has just ended. As Aliyev described it, BOTAS has claimed USD 333 million from BP. BP, says Aliyev, has made a counteroffer of a guaranteed USD 250 million that would settle all outstanding debts and eliminate any need for arbitration.

HARNISH